**Proposed SEC Rules will Guard Retail Investors Against Political Agenda**

It's a new world for investors, as asset managers increasingly use their concentrated voting power to push companies to adopt environmental and social goals (ESG) in addition to maximizing shareholder value. Fortunately, the Securities and Exchange Commission (SEC) is updating its rules to account for these massive market changes and protect the assets of retail investors.

For example, BlackRock, the most influential asset management fund in the world, announced in January that it would further prioritize how companies are responding to climate change when making investment decisions. This week, another major asset manager, State Street, said that too it intended to aggressively use their voting power on shareholder resolutions to push companies to further integrate environmental and social measures into their decision-making.

None of these developments should be too surprising to casual observers of the investment industry. However, few of these people are aware of the disproportionate role that proxy advisory firms, who advise institutional investors on how to vote their shares, also play in pushing an environmental and social agenda. In fact, the largest of the two main proxy advisors, Institutional Shareholder Services (ISS), has the ability to influence a quarter of all votes on a shareholder resolution. That is problematic because many institutional investors blindly follow proxy advisor recommendations without checking to make sure they are in the best interests of their clients.

Proxy advisors have been shown to disproportionately recommend that corporate boards, pension funds, asset managers, and various other investment funds vote in support of these environmental and social agendas, even if it is unclear whether those actions will positively impact a company's shareholders. Like many of their institutional investor clients, ISS and Glass Lewis recently changed their own guidance so that they would be more likely to recommend that investment managers vote against boards that are insufficiently diverse or for those that ask firms to address gender pay equity issues.

In retrospect, it is unsurprising that proxy advisors followed the lead of their largest institutional investor customers, including some very politically active public pension funds, such as CalPERS and the New York State Common Fund. However, for a long time, proxy advisors were considered "independent" actors who smaller and mid-sized asset managers also followed to cost-effectively fulfill their voting responsibilities.

In fact, a recent survey of retail investors found that 91 percent of retail investors prefer using their investments to maximize returns over pursuing social or political goals, which is a markedly different perspective from the preferences of asset managers and proxy advisors. 81 percent of retail investors also supported additional oversight from the Securities and Exchange Commission (SEC).

An individual investor is free to invest his money however he sees fit. If he is willing to accept lower returns to help achieve an overarching societal goal he may certainly do so. However, many people cannot afford to make such choices, and they may not share the agenda of their fund managers or the company's proxy advisor. They should not have their retirement wealth diminished as a result of such actions.

Fortunately for them, the SEC has been diligently taking action to correct these problems. In 2018, the staff withdrew two letters that interpreted advice from proxy advisors as "independent" and therefore allowed asset managers to rely on proxy advisors' recommendations without fear of scrutiny from the Commission and without conducting their own due diligence to ensure those recommendations aligned with their clients' interests.

Last year, the Commission voted to replace those letters with new guidance, which put the responsibility of shareholder voting back on asset managers who now must take steps to show proxy advisors' recommendations align with their client's goals. The guidance also allows companies to hold proxy advisors liable for false or misleading statements from proxy advisors.

Now the SEC has a proposal out to regulate proxy advisors to make them more transparent and improve the quality of information they provide to asset managers by forcing them to give companies a chance to review and respond to any recommendations, an important last step to protect retail investor interests.

Finally, the SEC has realized the need to update its rules on proxy voting, given the increased concentration of voting power with large asset managers and coordination with proxy advisors. The SEC's proposal would ensure that investors submitting a proxy proposal truly have a meaningful stake in the company and make it more difficult to abuse the process by repeatedly submitting unpopular resolutions.

The SEC's actions won't diminish the importance of ESG to many investors, but they will ensure that retail investors are better protected from an overzealous push to unknowingly sacrifice a portion of their retirement wealth to advance the cause.

*Eric V. Schlecht is President of OnPoint Strategies. He has worked on Tax, Budget, and Economic Policy issues in Washington D.C. for more than 25 years. He has served in leadership offices in both the U.S. House of Representatives and the Senate.*